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SUBJECT: JAMAICA'S FY 2006/7 BUDGET DEBATES: MORE THAN  
MONEY AT STAKE

Classified By: Political/Economic Counselor Mark J. Powell, reasons 1.4  
(b) and (d)

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Summary  
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¶1. (C) In the just-concluded yearly Parliamentary sparring match that Jamaicans refer to as the "budget debates," the governing People's National Party (PNP) and the opposition Jamaica Labor Party (JLP) presented sharply divergent views on the best way to pull the country out of the economic doldrums. The administration presented a typical election year budget with increased spending, but with no new taxation measures. The focus of capital spending will be on education, housing and national security, while continuing a policy of fiscal restraint in order to bring the country's debt ratio to a level more conducive to economic growth. There appear to be growing divisions within the PNP, however, between Prime Minister Portia Simpson Miller and her grassroots supporters, and opponents within the party who are unimpressed with her tenure thus far.

¶2. (C) Summary (cont'd): The JLP, on the other hand, focused on debt reduction as the vehicle for recovery. Both the Opposition Spokesman on Finance, Audley Shaw, and the Opposition Leader Bruce Golding harshly criticized the PNP's "concealment" of the use of funds saved under the PetroCaribe oil agreement with Venezuela, and instead advocated using PetroCaribe and international financial institutions for debt reduction to spur productive investment. In contrast to the PNP, the JLP leaves this budget season a more unified and persuasive political force. End summary.

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Background  
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¶3. (U) The "budget debate" in Jamaica is more of a formulaic "point-counterpoint" series of presentations. In mid-April, the Minister of Finance and Planning announces government expenditure plans. This is followed by review from the Parliamentary Standing Finance Committee (SFC), who generally agree to the totals. One week later, the Finance Minister presents his projections for revenue during the fiscal year, which runs from April to March. After this, the Opposition spokesman for Finance and the Opposition Leader offer their alternative economic and policy models for the country. The last word, however, belongs to the administration, with a speech by the Prime Minister, and a final wrap-up by the Finance Minister.

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PNP: No New Taxes  
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¶4. (SBU) On April 21, Finance Minister Omar Davies announced government expenditure plans amounting to JMD 358 billion (USD 5.5 billion), with capital expenditure doubling to JMD 29 billion (USD 446 million) over the 2005/6 figure. Following SFC approval, on April 27, he forecast revenues of JMD 222.2 billion (USD 3.4 billion), with tax receipts accounting for 87 percent, with the remainder coming from the sale of a fourth cellular license. His catchphrase of "No New Taxes," combined with increased expenditure, is a classic budget recipe considering the forthcoming general election which many expect to be held some time between July and September.

¶5. (U) Explaining how he would account for the JMD 136 billion (USD 2.1 billion) shortfall between revenue and expenditure, Davies explained that the country's bauxite levy, the sale of the GOJ's 20 percent share in the Jamaica Public Service Company, and leftover funds raised on the international capital markets in February 2006 would combine with JMD 112 billion (USD 1.7 billion) in domestic loans. Similarly, a 20 percent increase in tax collection in the coming fiscal year would be realized by aggressive measures to improve Jamaica's 58 percent tax compliance rate. (Note: In early June, two USG officials from the Treasury Office of Technical Assistance plan to visit Jamaica to conduct a needs assessment for the GOJ tax office. End note.)

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Division in the Ranks?  
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¶6. (C) On May 10, a well-placed private sector contact told Econoff about a rumor that Davies had not wanted to present a budget of this nature; that he had several new tax measures planned to increase revenue. According to the contact, however, new Prime Minister Portia Simpson Miller insisted that he remove them from the budget, arguing that they would be politically untenable with an election imminent. Furthermore, contacts suggest that this tampering may be a symptom of deeper divisions within the normally unified PNP. There have also been rumors that some of the PNP heavyweights, who generally favored Minister of National Security Peter Phillips in the recent party leadership race, have been dissatisfied by what they see as Simpson Miller's "underperformance" since her inauguration on March 30.

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But a Unified Message on Spending  
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¶7. (U) In his address, Davies highlighted three areas in particular for special attention: education, housing and national security. (Comment: In fact, Jamaica's need to spend 60 percent of its budget on debt servicing and its year-on-year recurrent expenditures mean that capital spending is always hamstrung. End comment.) Education enjoyed the largest addition: JMD 3.6 billion (USD 55.4 million), of which JMD 2.65 billion (USD 40.8 million) will facilitate rehabilitation and upgrading of schools. Davies also specifically noted JMD 1.5 billion (USD 23.1 million) in capital spending for the Ministry of National Security (MNS), of which JMD 1.1 billion (USD 17 million) is dedicated to technology upgrades. This is a significant step up from the JMD 400 million (USD 6.1 million) devoted to MNS in the last fiscal year.

¶8. (SBU) These priorities meshed well with Prime Minister Portia Simpson Miller's presentation before Parliament on May 19. In her first major policy speech since her inauguration 40 days ago ) a number of biblical significance that she was quick to seize upon ) Simpson Miller solidified her base but failed to win many new converts. Her theme was characterized in the media as "More for the Poor," and she highlighted

education, housing and early childhood development. Emboff spoke to Courtney Williams, an official from the Ministry of Finance (protect), who noted that Simpson Miller's priorities came as no surprise, given her "self-bestowed role as Country Mother."

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Opposition Jamaica Labor Party: It,s the Debt  
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¶9. (U) On May 2, Opposition Jamaica Labor Party (JLP) spokesman on finance, Audley Shaw, announced a bold plan to restructure Jamaica,s debt by using funds saved under the PetroCaribe oil agreement with Venezuela. Shaw argued that the GOJ should use the savings from the deal, which he estimated at JMD 18 billion (USD 277 million) for this fiscal year, to retire more expensive debt. This would decrease the amount of revenue that must be dedicated to servicing costs each year and allow more to be spent on productive investment that would spur economic growth. Shaw blasted the PNP's lack of transparency in its allocation of PetroCaribe savings, calling it a "social spending slush fund."

¶10. (U) He further suggested that the GOJ borrow a block of funds from multilateral institutions, using low interest cost funds such as these to replace the expensive debt instruments that Minister Davies has been inclined to utilize. Once debt costs were under control, Shaw continued, he would pursue an export-oriented industrial policy, diversifying the economy into new sectors such as agri-business, health tourism, and business process outsourcing. He noted that these fast-growing areas had proved the perfect remedy for Singapore, Ireland and, closer to home, Costa Rica.

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Golding Solidifies His Leadership  
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¶11. (SBU) On May 4, Opposition leader Bruce Golding gave what was widely regarded as the speech of his career. He also focused on the difficulties faced by a Government which, in order to satisfy its creditors, must spend such a large share of its revenue on debt servicing that it was left "in a position where it (is) no longer capable of fulfilling the functions for which Government exists." He used this as a lead-in to renew calls that he has voiced before to set constitutional limits on debt and deficits, although even

JLP-affiliated Embassy contacts admit that such limits are unlikely, and were perhaps intended to make for "good sound bites" for the media.

¶12. (U) Golding, as is typical of opposition leaders in these debates, also used the opportunity to criticize the PNP's record over its 14-year reign. He asked, for example, why the Jamaican economy had only grown by four percent cumulatively in the decade 1995-2004, when there had been USD 4.4 billion in foreign direct investment over the same period. He argued that his party was equally committed to fiscal austerity measures (Davies' signature phrase), but opined that taken in isolation, they were actually "impediments to growth." He reiterated that the only way forward was to bring Jamaica's debt problem under control; only then could the country become a productive player in a globalized world.

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Comment  
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¶13. (C) The stakes of this budget season are especially high. With the upcoming general election, this was the first chance for Simpson Miller to make a wide-ranging policy speech to show her path forward for Jamaica. In the same vein, recent polls had shown a convincing PNP victory in the elections, so the JLP's Golding needed to impress the electorate, presenting them with a clear and credible

alternative. It would appear in the immediate aftermath that the JLP won this round. The historically divided party appears to be rallying around their new leader, just a few weeks after Econoff was told that if Golding didn't "produce the goods, he's finished." The PNP's program, on the other hand, lacked imagination, and is perceived ) at least by the Kingston intelligentsia ) as a "more-of-the-same" budget intended to win at the polls. That being said, Simpson Miller's audience was not these economic and political elites; she was, in the words of one contact: "preaching to the choir(quite literally." It was the grassroots activists that ensured her elevation to PNP leader, and whom she wants to continue to court. At the very least, then, these past two weeks seem to have closed some of the gap between the parties, and if the JLP can capitalize on the momentum, may have a chance to end the PNP-owned longest streak of election victories in Jamaican political history.

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